CHILTON'S JANUARY 1989

CCJ

COMMERCIAL CARRIER JOURNAL

ASTA Heavy Duty Distributor Directory

GETTING READY FOR TL-LOCK

ALSO: LIFE CYCLE COSTING
MIXING TL/LTL FOR PROFIT

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IN THIS ISSUE

This issue was to include an impact analysis of the Federal Highway Administration's ruling (effective Nov. 15, 1989) that rescinded interstate fleets' exemption from Federal Motor Carrier Safety Regulations when they operate in commercial zones.

Those plans were short-circuited on Oct. 21 by the vaguely-worded Truck and Bus Safety and Regulatory Act that basically mirrored FHWA's rule, as reported in the December 1988 edition of CCJ. However, the new law modified provisions such as grandfathering and physical qualifications of drivers.

Since the legislation requires FHWA to revise its final rule, confusion prevails. When the dust clears, CCJ will publish an article on the impact of repealing commercial zone exemptions. □

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U.S. Supreme Court will review Arkansas refunds

The U.S. Supreme Court has agreed to decide if the state of Arkansas must refund all money collected through a tax declared unconstitutional by an Arkansas court. In March, the state court declared Arkansas' 5¢ per mile Highway Use Equalization tax unconstitutional and awarded a refund of taxes that had been held in escrow pending a final outcome of the litigation. The American Trucking Associations is seeking a retroactive refund of all the money collected since the tax was first levied in 1983.

New law relieves users of nontaxable diesel fuel

The Technical and Miscellaneous Revenue Act of 1988 provides relief for users of nontaxable diesel fuel. Effective April 1, 1988, all users were required to buy diesel fuel tax-paid and then apply for a refund on tax-exempt consumption. Now, users who buy from a qualified producer or wholesale-distributor (but not a retailer) will be able to buy fuel tax-free, beginning Jan. 1, 1989. The Treasury may require registration and reporting by both buyers and sellers. Buyers who purchase exempt fuel tax-paid will be able to file for refunds after accumulating $750 of overpayments in one or more quarters. Refunds for tax paid on exempt fuel from April 1 to Dec. 31, 1988, will be paid with interest if no refund or credit has already been claimed.

New division established by Radiator Specialty

Radiator Specialty Co. announced the establishment of a new operating division named the Truck and Heavy-Duty Division. The unit will manufacture and market a product line of chemicals, lubricants, safety devices and hoses for the fleet and owner-operator over-the-road and off-road markets.

Survey: Owner operators rank dealers and vehicles

A recent survey by Associates Commercial Corp. asked independent truckers about their relations with truck dealers. Of the truckers who responded to the survey, 25.1% mentioned a well-stocked parts inventory as being the most important reason for patronizing a truck dealership. Dealers' maintenance facilities (23.8%) and easiness to work with (13.2%) were the next most popular reasons. Approximately 33% of the truckers responding to the survey mentioned substandard mechanics or maintenance as a negative aspect of their experiences with truck dealers. Vehicle price was also a cause of friction (16.7%), and 12.1% cited unfulfilled warranty promises. According to the data, Western Star, Mack, Peterbilt and Marmon dealers were the most successful in avoiding troublesome experiences with their customers. Here's how truckers rated both the trucks and the dealers on a scale from 1 to 10 (10 being the highest):

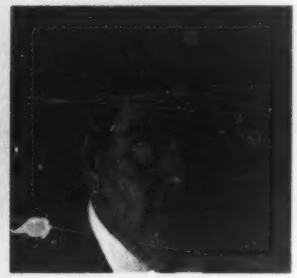
Nameplate	Dealership Rating	Vehicle Rating
Marmon	8.2	8.4
Western Star	6.9	7.7
Peterbilt	6.7	7.2
International	6.6	6.7
Kenworth	6.5	6.7
Mack	6.4	6.9
Freightliner	6.2	6.8
Volvo GM	6.1	7.0
Ford	5.3	5.8

Tire manufacturers announce global expansion plan

Bridgestone Corp. and The Firestone Tire & Rubber Co. announced they will initiate a global expansion plan that calls for approximately $1.5 billion in capital expenditures over about three years. The funds will be invested worldwide in Firestone's tire, diversified products and MasterCare automotive service businesses. Among key aspects of the plan are: to enhance product quality and productivity; expand capacity at Firestone Tire & Rubber plants in North America, Europe and Central and South America; and produce Bridgestone brand tires at Firestone plants in North America and Europe. In North America, Bridgestone tires will be sold through MasterCare outlets.

Manufacturers of pressure washing systems merge

L & A Products Inc., St. Paul, Minn., and Consolidated Chemex Corp., Cinnaminson, N.J., both manufacturers of pressure washing systems and equipment, have merged. They will operate as independent divisions under the new corporate name of Greylock Industries Inc., with headquarters in Cinnaminson. Projected annual sales of the new company are $15 million. Both divisions will retain their distributors, which number over 600 in the U.S. and Canada.



Report reveals updated linehaul cost data

By PARRY DESMOND Executive Editor 215-964-4529

It cost a Class I for-hire carrier 105.02¢ per mile to operate a tractor-trailer over the road in 1987. Of that total, the variable cost was 79.34¢ per mile, and the fixed and overhead costs were 25.68¢ a mile.

According to Ron Roth, the director of the American Trucking Associations' Statistical Analysis Department, those costs were derived from annual reports submitted to the Interstate Commerce Commission by 400 general freight carriers in 1988. Selection of the 54 general freight carriers included in the study was based on a minimum of $10 million in annual revenues. And, in order to focus on "identifiable specific costs," the analysis only included data from fleets with no more than 2% of total miles driven by owner operators.

Driver wages almost half of total

The study noted that 39.23¢ or 49% of the total variable costs per mile was for driver wages.

A breakdown of the non-driver variable costs—totaling 40.11¢ per mile—were 15.40¢ for fuel, oil, lubricants and coolants; 9.94¢ for vehicle maintenance; 9.89¢ for book depreciation; 2.43¢ for tires and tubes.

Significant fixed and overhead costs per mile, which totaled 25.68¢, were: officers' and supervisors' salaries, 2.52¢; labor other than drivers and repairs, 1.20¢; fringes, 13.22¢; general supplies and expenses, 1.27¢; taxes and licenses (other than fuel and oil), 3.01¢; insurance, 2.75¢.

The chart (see box on this page) that breaks down carriers' 1987 linehaul costs based on their annual revenues grouping, shows there was little difference in variable costs. The spread between the total linehaul costs for high cost group (107.49¢) was only 5.67¢ per mile greater than the low cost group (101.82¢).

The cents-per-mile spread of variable costs between the high- and low-cost groups was even less—4.56¢.

While larger carriers had lower variable costs, higher average overhead offset that advantage.

Linehaul only a third of all costs

"Linehaul costs are but one component of a carrier's total costs, especially in general freight operations where many thousands of small shipments are handled daily," warns Roth. In 1987, linehaul costs represented only one-third of all general freight carrier costs.

In addition to linehaul costs, carriers spent a total of 62.95¢ per mile on operating costs. Those per mile costs include: pick up and delivery, 23.74¢; terminal, 17.23¢; platform, 8.49¢; traffic and sales, 4.50¢; general and administrative, 4.35¢; billing and collecting, 2.34¢; maintenance, 1.40¢; insurance and safety, 0.90¢.

Thus when you see the $3.29 per-mile revenue for the 54 general freight carriers included in the ATA study, the revenue covers much more than linehaul costs.

Continued

'87 Tractor-Trailer Linehaul Costs By Revenue Size Groupings

	Carriers with revenues ($ million) of		
	$100 or more	$50 - $100	$10 - $50
	Cost per mile (¢)		
Driver wages	39.96	32.79	36.42
Vehicle Repair Wages	5.05	5.22	5.32
Vehicle Parts	3.20	3.84	4.05
Parts & Repair Wages	8.24	9.06	9.37
Outside Maintenance	1.47	2.01	2.49
Total Maintenance	9.72	11.07	11.86
Tires & Tubes	2.29	3.47	3.39
Other Operating Expenses	2.45	3.47	3.39
Fuel Expense	9.69	11.17	11.47
Fuel & Fuel Taxes	14.81	16.99	17.01
Oil, Lube & Coolant	0.30	0.35	0.33
Fuel, Fuel Tax & Oil	15.11	17.35	17.34
Depreciation	9.42	13.31	12.66
Subtotal: Variable Cost Categories	78.95	80.78	83.51
Subtotal: Overhead & Fixed Costs	26.15	21.04	23.98
Total Linehaul Costs	105.10	101.82	107.49

Roth cautioned that "no single figure [in his report] represents an absolute" because the trucking industry is so diverse. "Operating costs for a dry freight van can differ significantly from a tanker, a reefer or an auto rack," noted Roth. And even when vocationally comparable carriers use the same type equipment, costs can vary because of factors such as driver wages, equipment age, maintenance and purchasing practices for fuel, parts, tires and outside services, fleet location and operating territory, climate, length of haul, taxes, licenses and insurance. "In short, the figures in this analysis are averages and shouldn't be used to represent any individual carrier's over-the-road costs," concluded Roth.

Comparison of TL share prices

Listed below is a comparison of percentage changes in share prices of publicly-traded truckload carriers for the first 10 months of 1988, based on data supplied by Morgan Keegan & Co., the Memphis, Tenn.-based investment firm:

Cannon Express	76.5%
Heartland Express	50.9%
J.B. Hunt Transport	49.2%
Werner Enterprises	17.7%
M.S. Carriers	14.5%
S & P 500 Index	*12.9%*
Marten Transport	(7.7%)
MNX Inc.	(9.5%)
P.A.M. Transport	(10.7%)
KLLM Transport	(11.5%)
Builders Transport	(15.6%)
Freymiller Trucking	(27.3%)
Country Wide	(36.4%)
Circle Express	(55.9%)

Shipper-carrier partnerships analyzed

Following federal deregulation of the motor carrier industry in 1980, shippers were giddy with carrier selection options and opportunities to cut costs drastically. But some shippers were caught with deregulatory pants down when low-cost, for-hire fleets with 48-state authority performed poorly or went belly-up.

In addition to coping with the uncertainty of whether carriers could pick up and deliver freight on a scheduled basis, shippers eventually realized they were spending an incredible amount of time negotiating rates and managing additional carriers.

According to the thesis Marcia L. Santaga wrote in 1987 for a master of administrative science degree from the University of Wisconsin, Green Bay, the problems noted above have generated a trend toward more committed relationships between carriers and shippers to improve productivity and efficiency. Shippers now realize high-quality service, in addition to competitive rates, is a critical factor in choosing a carrier. As a result, Santaga claimed, shippers have begun to establish long-term partnerships with a reduced number of carriers.

In a partnership, "a carrier becomes an integral aspect of the distribution process, gets a high market share of the shipper's total freight, receives a competitive rate, and does everything in its power to meet the needs of the shipper," wrote Santaga.

And a partnership "can enable the carrier to gain a cost advantage over competitors," she wrote in "Determination of Factors Which Influence Truckload Carrier-Shipper Partnership Relationships."

Santaga's research effort, sponsored by Schneider National, the truckload carrier based in Green Bay, Wisc., was based on a random sample (200) of 1,000 leading U.S. shippers.

At least half of the companies surveyed had at least eight plants—typically located in medium-size cities with two- or four-lane highways nearby—and more than 400 employees working at each location. And more than 450 full truckloads were hauled out of those facilities monthly.

Based on her research, Santaga determined that partnerships have caused shippers to establish better relations with motor carriers in the ways noted below:

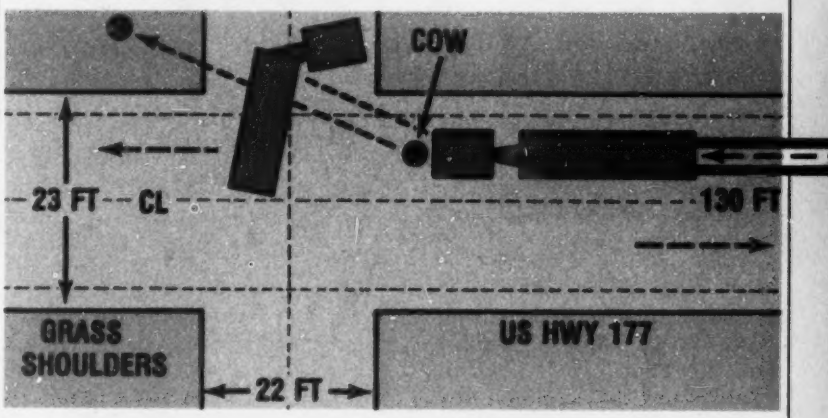
- 89% have daily communication with carriers;
- 11% have committees that include carrier representatives.
- 34% share competitors' rates with carriers;
- 69% routinely exchange information on company philosophies, management styles, or objectives with carriers;
- 62% share cost information with carriers;
- 85% have visited carriers' places of business;
- about 50% exchange formal training or presentations with carriers;
- 20% are committed to giving carriers a specified percentage of business;
- less than 50% require driver assistance in loading and unloading, stopoffs, or pallet exchange or return;
- 52% pay premiums so less desirable loads are delivered;
- 96% depend on top carriers to handle less-than-desirable loads;
- 46% have long-term contracts—at least a one-year commitment—with carriers;
- 22% have electronic data interchange (EDI) capability;
- 6% have employees who work exclusively with their carrier(s);
- more than 60% use at least one of the following: computerized rating, auditing or planning; computerized decision support systems; just-in-time delivery;
- 42% use only one or two new carriers in the past six months;
- 60% give 25% or less of their freight to one preferred carrier; 30% give 26%-50%; 9% give more than 50% to one fleet.

Circle 18 on Inquiry Card→

DOT fines issued in '88

- **Coles Express,** Bangor, Me., paid $4,000 for: using a driver without a medical examination; requiring/permitting part-time drivers to operate without obtaining signed statements regarding duty hours for the preceding seven days.
- **North American Van Lines,** Ft. Wayne, Ind., paid $8,000 for: requiring/permitting drivers to make false entries upon a record of duty status; failing to require drivers to forward the original of the record of duty status within 13 days of completion.
- **Midwest Transport,** Wilmar, Minn., paid $8,500 for: requiring/permitting drivers to operate more than 10 hours following 8 consecutive hours off duty; requiring/permitting drivers to operate after having been on duty more than 70 hours in eight consecutive days.
- **Mitchell Transport,** Cleveland, Oh., paid $4,000 for: requiring/permitting drivers to make false entries upon a record of duty status.
- **Nu-Car Carriers,** Birmingham, Mich., paid $4,000 for: failing to obtain vehicle inspection reports for at least three months; operating a motor vehicle in such a condition that it was likely to break down or cause an accident.
- **Eastern Tank Lines,** Dayton, Oh., paid $2,592.75 for operating a motor vehicle without the required minimum levels of financial responsibility.
- **Rite-Aid Distribution Center,** Rome, N.Y., paid $20,000 for requiring/permitting drivers to operate for more than 10 hours or after having been on duty for 15 hours.
- **Coca-Cola Bottling Co.,** La-Crosse, Wisc., paid $1,000 for operating a motor vehicle without the required minimum levels of financial responsibility.
- **Victory Freightway Systems,** Sellersburg, Ind., paid $5,000 for requiring/permitting drivers to make false entries upon a record of duty status.

Preventable or not?



The fatal accident occurred at 5:45 a.m. as John Doe headed his tractor-trailer southward at 53 mph along Highway 177, a two-lane, black-asphalt roadway in rural Oklahoma. Earlier, rain had fallen and the sky was dark and overcast. The stage was set for disaster by a "mostly black" cow which, presumably tired of dragging its udder through wet grass, decided to dry off by standing in the middle of the south-bound lane.

A member of the National Safety Council's (NSC) Million Mile Club, John crested a small rise in the roadway and drove approximately 400 yards before ramming the cow with his conventional-cab Freightliner, leaving 130 ft of skid marks in his wake. Notably, the point of impact was approximately 40 ft from an intersection.

After knocking the unfortunate bovine 80 ft down the highway, the tractor-trailer traveled about 50 ft from the point of impact before it jackknifed and came to rest in the intersection.

While the company's accident committee ruled the accident preventable, John and his terminal manager felt the judgment was patently unfair.

Consequently, accident data was submitted to NSC's Accident Review Committee for a final decision. In a cover letter to NSC, the terminal manager noted that John's tractor was equipped with an on-board computer that documented a sustained running speed of 53 mph with a brake application prior to impact.

The terminal manager emphasized that the Freightliner was equipped with halogen lamps which, at 53 mph, would preclude over-driving the vehicle's headlights. In sum, he said, John was driving defensively, applied the brakes as soon as the animal was sighted and attempted to take evasive action.

In NSC's judgment, the theoretical role of halogen headlamps in preventing the driver from over-driving his headlights at 53 mph is invalid, since the lenses would have been dirty and wet like the surface of the highway.

NSC ruled the accident preventable because John was traveling too fast for conditions—a dark, rain-slicked road in stormy weather. In addition, NSC said, John clearly was approaching a crossroad and should have displayed greater caution at that point.

Deaths In Tractor-Trailer Crashes by Highway Type, 1987

	Freeways	Major Roads	Minor Roads
Single-Vehicle Crashes	194	218	13
Multiple-Vehicle Crashes	631	2,489	154
Crashes Involving Pedestrians and Bicyclists	89	187	33

Source: Insurance Institute for Highway Safety